



STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION

of

HEALTH CHOICE UTAH, INC.

of

Murray, Utah

as of

December 31, 2021



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May 17, 2023

Honorable Jonathan T. Pike, Insurance Commissioner
Utah Insurance Department
4315 S. 2700 West, Ste. 2300
Taylorsville, Utah 84129

Commissioner:

Pursuant to your instructions and in compliance with Utah Code § 31A-2-204, an examination, as of December 31, 2021, has been made of the financial condition and business affairs of:

HEALTH CHOICE UTAH, INC.
Murray, Utah

hereinafter referred to in this report as “the Company”, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

Representatives of the Utah Insurance Department (Department) have performed a full scope examination of the Company. The last financial examination of the Company was as of December 31, 2018. The current covers the period of January 1, 2019, through December 31, 2021, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

Examination Procedures Employed

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination, however, does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report.

This examination report includes significant findings of fact, as mentioned in Utah Code § 31A-2-204 and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other insurance regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

There are no significant findings for inclusion in this report.

COMPANY HISTORY

General

The Company commenced operations on March 1, 2012, as a health maintenance organization that provides comprehensive health care services to Medicaid enrollees under contracts with the Utah Department of health. The Company was a wholly owned subsidiary of IASIS Healthcare, LLC. In September 2017, the Company was acquired by Steward Health Care System, LLC, and on December 30, 2020, the Company was acquired by University of Utah Health Insurance Plans (UUHIP).

Since the acquisition, the Company has experienced changes in the Board of Directors and some of the Company officers as well as operational systems and investment strategy. The Company's business strategy has been largely focused on its Medicaid line of business, but the Company also started writing Medicare business in 2019. The Company is currently only licensed in the state of Utah

Mergers and Acquisitions

As previously mentioned, UUHIP became 100% owner of the Company as the result of an acquisition effective December 30, 2020. No other mergers or acquisitions took place during the examination period.

Dividends and Capital Contributions

The Company paid an extraordinary dividend of \$9M to UUHIP in 2021. No other dividends were declared or paid during the examination period. The Company did not receive any capital contributions during the examination period.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

Board of Directors

The bylaws of the Company state that the number of directors constituting the Board of Directors shall be not less than three (3) and not more than nine (9) directors. The following persons served as directors of the Company as of December 31, 2021:

Name and Location	Principal Occupation
Michael T. Hales <i>Riverton, UT</i>	Sr. Director, Board Chair <i>University of Utah Hospitals and Clinics</i>
Gordon L. Crabtree <i>Farmington, UT</i>	Former CEO (Retired) <i>University of Utah Hospitals and Clinics</i>
Larry D. Hancock <i>Sandy, UT</i>	Adjunct Instructor <i>University of Utah, David Eccles School of Business</i>

Committees

Composition of the Audit Committee as of December 31, 2021, was as follows:

Audit Committee
Michael T. Hales, <i>Chairman</i>
Gordon L. Crabtree
Larry D. Hancock

Officers

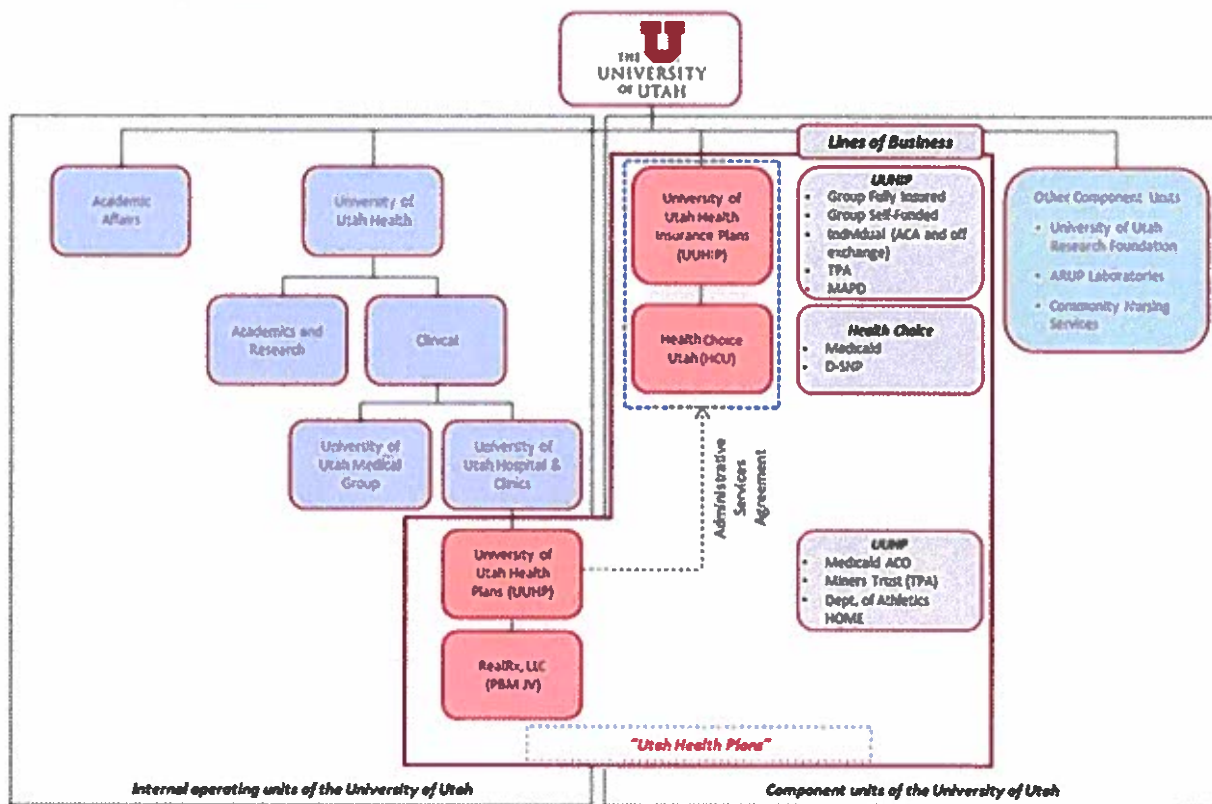
The following persons served as officers of the Company as of December 31, 2021:

Name	Title
John N. Larsen	Chief Executive Officer
Douglas S. Finlinson	Chief Financial Officer
Richard Ferguson, MD	Chief Medical Officer

Holding Company

The Company is an affiliate of the University of Utah, a body politic and corporate of the State of Utah. The following is an organizational chart illustrating the holding company system as of December 31, 2021:

Holding Company Structure Insurance Company Structure



Transactions and Agreements with Affiliates

The following agreement was in place as of the date of this examination report:

Administrative Services Agreement

On January 1, 2021, the Company became part of an Administrative Services Agreement with UHIP and University of Utah Hospital and Clinics (UUHC), where UUHC provides the following administrative services:

- Enrollment & Disenrollment
- Marketing
- Care Management and Quality Assurance
- Provider Relations
- Claims Processing and Customer Service
- Information Services
- Financial and Actuarial Services
- Management Support
- Personnel
- Facilities, Equipment, and Supplies
- Records and Software Systems

The Company is responsible for all direct and indirect expenses incurred by UUHC in performing these services and is invoiced monthly.

TERRITORY AND PLAN OF OPERATIONS

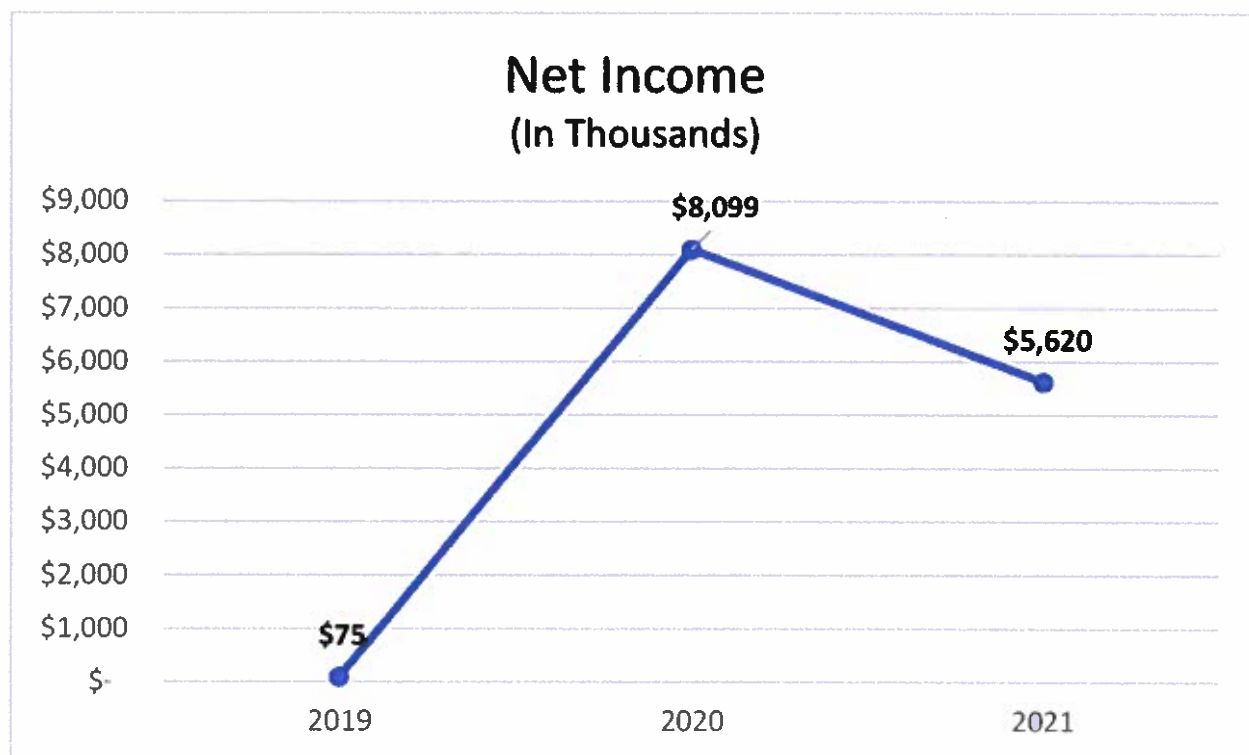
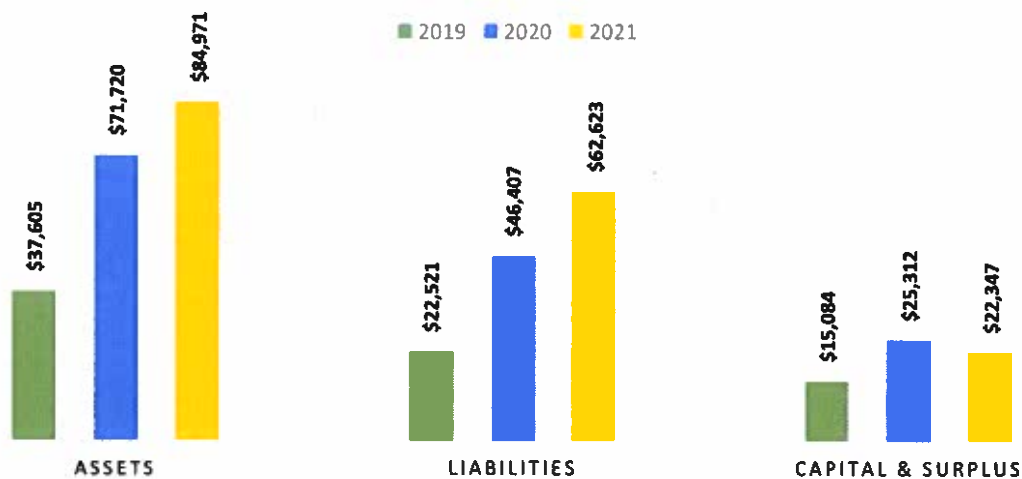
The Company is a licensed health maintenance organization (HMO) that provides comprehensive health care services to Medicaid and Medicare enrollees under contracts with the state of Utah. As an HMO, the Company is at risk for all outpatient and inpatient claims incurred by its beneficiaries.

GROWTH OF COMPANY

The Company has experienced steady growth during the period under examination. However, Net Income and Capital & Surplus decreased slightly in 2021 due to the dividend paid.

The following graphs illustrate the growth of the Company during the examination period:

TOTAL ADMITTED ASSETS, LIABILITIES, CAPITAL & SURPLUS (IN THOUSANDS)



Sources: 2019 – 2021 Annual Statements

REINSURANCE

Assumed

The Company does not assume any reinsurance.

Ceded

As of December 31, 2021, the Company had an Excess of Loss Reinsurance Agreement with Everest Reinsurance Company (Everest). The reinsurance contract covers a list of health care services provided to a covered member pursuant to the terms of the agreement.

The Company retains the following retention limits during the agreement period for each covered Member:

- \$250,000 of Net Loss incurred per covered member per agreement term.
- \$2,000,000 maximum payable per covered member per agreement term.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2021. The accompanying COMMENTS ON FINANCIAL STATEMENTS (if any) reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

HEALTH CHOICE UTAH, INC.
BALANCE SHEET (Amended)
as of December 31, 2021

ASSETS

	<u>Net Admitted Assets</u>
Bonds	\$31,474,191
Preferred stocks	11,060,305
Common stocks	2,125,956
Cash, cash equivalents and short-term investments	35,068,677
Investment income due and accrued	86,265
Accrued retrospective premiums	2,012,253
Amounts recoverable from reinsurers	301,061
Net deferred tax asset	730,660
Healthcare and other amounts receivable	1,122,574
Aggregate write-ins for other-than-invested assets	989,365
Total Assets	<u>\$84,971,307</u>

HEALTH CHOICE UTAH, INC.
BALANCE SHEET (Amended, Cont.)
as of December 31, 2021

LIABILITIES, SURPLUS, AND OTHER FUNDS

	<u>Current Year</u>
Claims unpaid	\$ 32,794,787
Unpaid claims adjustment expenses	774,225
Premiums received in advance	15,967,129
Current federal and foreign income tax payable and interest thereon	1,778,581
Amounts due to parent, subsidiaries and affiliates	1,834,703
Other expenses and liabilities	<u>9,474,390</u>
Total Liabilities	62,623,815
 Gross paid in and contributed surplus	 13,047,917
Unassigned funds (surplus)	<u>9,299,575</u>
Total Capital & Surplus	<u>22,347,492</u>
Total Liabilities, Surplus and Other Funds	<u>\$84,971,307</u>

HEALTH CHOICE UTAH, INC.
STATEMENT OF INCOME (Amended)
for the Year-Ended December 31, 2021

	<u>Current Year</u>
Member Months	445,591
Net premium income	<u>\$173,287,390</u>
Total revenues	173,287,390
 Hospital/medical benefits	 117,417,495
Emergency room and out-of-area	7,345,224
Prescription drugs	23,986,339
Aggregate write-ins for other hospital and medical	<u>724,916</u>
Subtotal	149,473,974
Less: Net reinsurance recoveries	<u>1,284,870</u>
Total hospital and medical	<u>148,189,104</u>
Claim adjustment expenses	5,972,762
General administrative expenses	<u>12,057,666</u>
Total underwriting deductions	<u>166,219,532</u>
Net underwriting gain or (loss)	7,067,859
 Net investment income earned	 353,173
Net realized capital gains (losses)	<u>(22,400)</u>
Net investment gains (losses)	330,773
Federal and foreign income taxes incurred	<u>1,778,581</u>
Net income	<u>\$ 5,620,051</u>

HEALTH CHOICE UTAH, INC.
RECONCILIATION OF CAPITAL AND SURPLUS

2019 through 2021

	2019	2020	2021
Capital and surplus, December 31, prior year	<u>\$14,718,321</u>	<u>\$15,083,857</u>	<u>\$25,312,265</u>
Net income	74,624	8,099,416	5,620,051
Change in net unrealized capital gains (losses)	-	-	90,478
Change in net deferred income tax	320,651	130,708	181,327
Change in nonadmitted assets	(29,739)	210,367	143,372
Surplus adjustments – Paid in	-	1,787,917	-
Dividends to stockholders	-	-	(9,000,000)
Net change in capital and surplus	<u>365,536</u>	<u>10,228,408</u>	<u>(2,964,772)</u>
Capital and surplus, end of reporting period	<u><u>\$15,083,857</u></u>	<u><u>\$25,312,265</u></u>	<u><u>\$22,347,493</u></u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as of December 31, 2021, as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

There are no comments on financial statement items as of December 31, 2021, as a result of the examination.

SUBSEQUENT EVENTS

Effective January 1, 2022 the Company entered into a Medical Excess of Loss Reinsurance Agreement with Swiss Re Life & Health America Inc. (Swiss Re), replacing its previous coverage with Everest. The reinsurance contract covers all health care supplies, and treatments and/or services provided to a covered member within the terms and provisions of the Membership Service Agreement or Policy for which Swiss Re has agreed to provide reinsurance coverage pursuant to the terms of this Agreement.

The Company retains the following retention limits during the agreement period for each covered Member:

- \$250,000 of Net Loss incurred per covered member per agreement Period.
- The Company also retains 10% of Net Loss incurred on each covered member, in excess of the \$250,000, each agreement period.

ACKNOWLEDGEMENT

Mike Presley, FSA, MAAA, Lead Consulting Actuary, of Risk & Regulatory Consulting, LLC, performed the actuarial review of the examination. Joanna Latham, AES, CISA, CRISC, CFE, CPA, IT Specialist, of Jennan Enterprises, LLC, performed the information systems review. Malis Rasmussen, CFE, SPIR, MSA Chief Financial Examiner, supervised the examination. Madison Brown, Financial Examiner, of the Utah Insurance Department, participated in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,

Cambria Shore

Cambria Shore, CFE, APIR, MSA
Examiner-in-Charge
Utah Insurance Department